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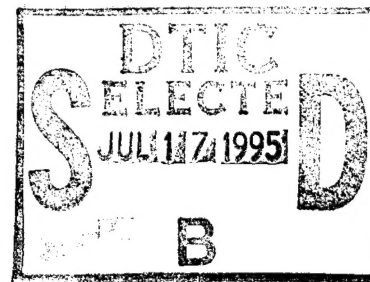
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National Security and
International Affairs Division

B-256071

June 22, 1994

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate



The Honorable Byron L. Dorgan
United States Senate

In response to your requests and subsequent discussions with your office, we are providing responses to questions raised concerning the relocation of the Naval Undersea Warfare Center (NUWC)/Norfolk detachment from Norfolk, Virginia, to Newport, Rhode Island. Your concerns specifically related to whether the detachment's leasing of a new facility in the Norfolk area is in the best interest of U.S. taxpayers.

We briefed your staff on November 30, 1993, and February 25, March 23, and May 11, 1994, on the results of our work. These briefings and our earlier report¹ resolved your concerns related to the move to Newport; however, you requested that we provide additional information on the requirement for the new facility in Suffolk, Virginia. This report documents the information presented in the briefings related to the new facility. (See app. I.)

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Background

As part of the 1993 round of base closures, on February 22, 1993, the Navy recommended to the Secretary of Defense closing the NUWC Newport Division's Norfolk detachment and moving it to Newport, Rhode Island, in order to reduce excess capacity. Construction of the detachment's new facility in Suffolk, Virginia, had begun nearly 1 year earlier and was nearing completion under a 20-year lease for a building built specifically to meet the detachment's requirements. Prior to the final decision to build the facility, the Navy was aware that downsizing and reorganization would decrease the size of the Norfolk detachment.

Results in Brief

Construction of the detachment's Suffolk facility began in March 1992 and was completed in May 1993. The justification for the building was originally submitted in 1987, prior to base closure considerations and

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¹Navy Laboratories: Response to Questions on the Norfolk Detachment (GAO/NSIAD-94-114BR, Feb. 23, 1994).

reduced Navy budgets. It was based on the detachment's planned growth and the desire to consolidate the detachment's existing leased spaces in the Norfolk area.

We believe that the Navy should not have entered into a long-term lease in a period of downsizing. To the extent the Navy does not find other occupants for the building, it could unnecessarily spend up to \$24.3 million in lease costs over the life of the lease. In addition, it incurred over \$9 million in one-time relocation costs. Prior to signing the lease, there were indications that the proposed facility might not be needed. As a result of these indications, we believe that options other than a long-term lease merited greater consideration. Therefore, in our opinion, the decision to build the Suffolk facility was questionable. We found no indication that consideration of other options had occurred—after mid-1991 when it became clear that Navy downsizing and reorganization would affect the size of the NUWC/Norfolk detachment.

Scope and Methodology

We collected and analyzed data from the Office of the Secretary of Defense, the Navy, and the General Services Administration (GSA). We also held discussions with representatives from various offices, including the Commander, Naval Undersea Warfare Center; NUWC Newport Division; NUWC/Norfolk detachment; the Naval Facilities Engineering Command, Atlantic Division; the Base Structure Evaluation Committee; the Base Structure Analysis Team; the Naval Sea Systems Command; the Commander, Naval Base Norfolk; the Commander, Submarine Forces, Atlantic Fleet; the U.S. Atlantic Command; and GSA. Our analysis of cost issues was based on our review of Navy documents, discussions with agency officials, and prior experience with the Department of Defense's Cost of Base Realignment Actions model.

We conducted our review from November 1993 to May 1994 in accordance with generally accepted government auditing standards.

Agency Comments

During March and April 1994, the Naval Undersea Warfare Center; the Naval Sea Systems Command; the Naval Facilities Engineering Command, Atlantic Division; and GSA reviewed various drafts of this report and we have incorporated their comments where appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to the Secretary of the Navy; the Commander, Naval Undersea Warfare Center; and appropriate congressional committees. Copies will also be made available to other interested parties upon request.

The major contributors to this report are listed in appendix II. If you or your staff have any questions about this report, please call me on (202) 512-8412.

A handwritten signature in black ink, reading "Donna Heivilin". The signature is fluid and cursive, with the first name "Donna" and last name "Heivilin" clearly distinguishable.

Donna M. Heivilin
Director, Defense Management
and NASA Issues

Early Evolution of the Naval Undersea Warfare Center/Norfolk Detachment

The Naval Undersea Warfare Center (NUWC)/Norfolk detachment was originally established in 1963 as the Electronics Maintenance Center. As a result of several Navy reorganizations over the years, the detachment was integrated into various commands and was housed in leased space in the Norfolk, Virginia, area. On October 19, 1982, the detachment became a separate command and was designated as the Naval Sea Combat Systems Engineering Station (SEABAT).

The tasks assigned to SEABAT increased over the years; however, it continued to be housed in leased space. As its workload expanded, its staff grew from 332 positions at the end of fiscal year 1982 to 810 full-time permanent positions at the end of fiscal year 1991. According to estimates in SEABAT's fiscal year 1991 Strategic Business Plan, staffing was expected to reach over 1,100 by the end of fiscal year 1995. As the detachment expanded, alternatives to multiple leased space locations were examined.

Leasing/Military Construction Projects

On August 25, 1987, SEABAT requested a military construction project to build a 287,130-square foot, multi-story facility to house its operations. About 137,580 square feet was to be dedicated for laboratory space, 147,750 square feet for administrative/data processing support, and 1,800 square feet for training. The request stated that this requirement was based on the need to replace leased space of 134,545 square feet in the Glopar building; the lease was to expire in 1992 with no renewable options. The request was not approved by the Chief of Naval Operations for inclusion in the Navy's military construction budget request and became part of the Navy's unprogrammed projects list.² By June 28, 1988, the detachment had acquired additional leased space totaling 116,650 square feet in two other buildings (Walmer and Dexter), for a total of 243,501 square feet in three locations. Table I.1 shows the type, amount, and location of leased space occupied by the detachment, as of June 28, 1988.

²As of March 22, 1994, Navy officials told us and documentation supported that this project was still on the unprogrammed projects list. These officials believe that the project will be deleted during the summer of 1994.

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Table I.1: Type, Amount, and Location of Space Occupied by SEABAT (as of June 28, 1988)

Building	Type of space	Square footage
Glopar	Office	68,338
	Storage	21,016
	Computer	19,508
	Industrial	17,324
	Food Service	665
Total		126,851
Walmer	Office	39,650
Dexter	Warehouse	75,795
	Office	1,205
Total		77,000
Total		243,501

Source: Naval Undersea Warfare Center.

On February 1, 1989, the Naval Facilities Engineering Command, Atlantic Division (NAVFAC), submitted a request to the General Services Administration (GSA) for the leasing of 278,978 square feet to be occupied by SEABAT, and on July 28, 1989, requested approval from the House Armed Services Committee. The justification indicated that the detachment's existing leases in three separate locations had a detrimental effect on the detachment's ability to perform its mission. During the same time, SEABAT's funded workload was growing and was expected to continue to grow through fiscal year 1993. The lease request was supported by a military construction project request originally submitted in August 1987 for a multi-story facility as a long-term solution to the detachment's space requirement.

On May 11, 1990, GSA advertised SEABAT's requirement to lease from 277,000 square feet to 280,000 square feet of building space. The advertisement indicated that the space would consist of 73,000 square feet of lab space, 76,000 square feet of warehouse space, 123,000 square feet of office space, and 7,000 square feet of special-purpose space. Based on the responses to the advertisement, a joint GSA and Navy market survey, and GSA's knowledge of buildings and leases in the Norfolk area, GSA decided that the detachment's requirement could only be met by a new building because no existing buildings would satisfy the detachment's requirements.

On June 12, 1990, the Senate Committee on Environmental and Public Works gave GSA approval to lease 278,978 square feet of space for the detachment for a period of 20 years.

SEABAT, by November 1991, had leased an additional 26,000 square feet in two other Norfolk area locations (Wards Corner and Diamond Hill, Virginia) to accommodate its expanded workload and staff.

Navy Realignment Plan

The Navy's initial laboratory consolidation plan, approved by the 1991 Defense Base Closure and Realignment Commission (BRAC), anticipated significant downsizing of that part of SEABAT realigned under NUWC (almost 50 percent of its positions) but made no mention of moving the NUWC/Norfolk detachment to Newport, Rhode Island. The initial Navy Research, Development, Test, and Evaluation (RDT&E) consolidation plan was formulated between August 1990 and April 1991 by the Navy's RDT&E Facilities Consolidation Working Group. The plan was approved by the Secretary of the Navy in April 1991 and forwarded to the Secretary of Defense for inclusion in the Department of Defense's (DOD) recommendations to the 1991 BRAC. The Secretary of the Navy approved the final plan, and the Secretary of Defense submitted closure and realignment proposals along with the detailed justification to the 1991 BRAC.

In our review of the Navy's Facilities Consolidation Working Group's files, we found no documentation addressing costs and other issues involving the closure of SEABAT in Norfolk, Virginia. The Navy's 1991 proposals regarding SEABAT reflected organizational changes rather than relocation of functions and personnel.

Background of Realignment Plan

As a result of the Secretary of Defense's July 1989 Defense Management Report calling for acquisition management system and overall management of DOD resources, a series of DOD Defense Management Report Decisions outlined specific tasks necessary to achieve management efficiencies and cost savings. Defense Management Report 922, drafted in October 1989, required each military service to consolidate its RDT&E activities and strengthen RDT&E management, as well as reduce duplication in science and technology among the three military services.

In August 1990, the Secretary of the Navy directed the Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN/RDA) to

develop initial plans for internal Navy consolidation of its RDT&E, Engineering and Fleet Support activities. A Facilities Consolidation Working Group was formed to develop this plan.

In the fall of 1990, the Navy was also collecting information to develop recommendations for the 1991 base closure process. Field activities responded to numerous data calls from systems commands and provided such information as the number of people working on specific programs proposed for transfer to other activities.

On April 12, 1991, as part of the 1991 base closure process, the Navy recommended realigning all its RDT&E, engineering and fleet support facilities under four warfare centers. The Working Group formulated its plan based on its own analysis as well as input from the systems commands. The plan was reviewed and approved by ASNRDA, Secretary of the Navy, the Navy's Base Structure Analysis Team and Base Structure Evaluation Committee and, finally, the Secretary of Defense. The Secretary of Defense submitted the Navy's closure and realignment proposals along with the detailed justifications to the 1991 BRAC for its review. The Commission's July 1, 1991, report recommended realigning SEABAT, and this recommendation was subsequently accepted by the President and Congress.

Under the Navy's plan, SEABAT (830 positions) was reorganized under two warfare centers—NUWC (580 positions) and the Naval Surface Warfare Center (250 positions). That part of SEABAT realigned under NUWC was designated the Newport Division, Norfolk detachment. SEABAT activities reorganized under the Surface Warfare Center were designated as detachments of two divisions—Port Hueneme, California, and Carderock, Maryland.

The Navy's April 1991 Base Closure and Realignment Recommendations: Detailed Analysis, Tab F, provided the justification for realigning SEABAT and served as the initial baseline for consolidation planning. It also contained the most detail in terms of functional transfers and savings goals.

Under the Navy's 1991 realignment plan, SEABAT's portion aligned to the NUWC/Norfolk detachment was expected to downsize from 580 positions to 300 positions over a 6-year period. The plan also recognized that the only impact of losing 280 positions from the NUWC/Norfolk detachment would be the renegotiation of a lease for less office space. The Naval Sea Systems

Command (NAVSEA) and the Undersea and Surface Warfare Centers subsequently modified the SEABAT realignment plan, which resulted in NUWC/Norfolk detachment retaining 674 positions and Naval Surface Warfare Center receiving 126 positions.

On January 2, 1992, the Navy began implementing its consolidation plan. Although some changes were made by the warfare centers to the initial SEABAT realignment, these modifications involved only the division of functions and associated positions and did not affect the location of the NUWC Newport Division, Norfolk detachment.

Requirement for New Building Questionable

An August 20, 1991, NAVFAC memorandum to the Chief of Naval Operations, with a copy to NAVSEA, requested guidance concerning the need for the detachment's new building in light of (1) BRAC's 1991 recommendations to reduce the NUWC/Norfolk detachment to 300 and (2) overall DOD downsizing.

In a September 18, 1991, letter to the Commander, NAVFAC, the Commander, NAVSEA, provided reassurances that the building was still needed and requested that the lease acquisition continue as planned. The NAVSEA letter, the details of which were generated by SEABAT, stated that, despite potential Navy workload and position reductions through the next decade, the anticipated impact on personnel and workload levels would be less than originally projected by the 1991 BRAC. The letter stated it expected that the total personnel presence at the Norfolk detachment's facility would support the 278,978-square foot space proposed in the pending GSA lease acquisition. Further, the letter claimed \$1.2 million annually would be gained through increased productivity and more efficient use of equipment by collocating the three leased sites.

The reassurances as to the continuing need for the facility as written by the SEABAT personnel were merely incorporated into the official NAVSEA response to questions raised related to the need for the facility. We found no evidence of any review or analysis at the NAVSEA level of the assumptions made in the September 18, 1991, letter. Based on NAVSEA's reassurances, on October 1, 1991, NAVFAC authorized GSA to proceed with awarding the lease. GSA subsequently asked the detachment to consider extending the lease of the new facility from 15 to 20 years to save the government \$2.5 million in rental costs because the lessor was able to obtain cheaper financing for a longer lease; the detachment agreed.

We believe that options other than entering into a 20-year lease for a building sized to hold nearly 1,000 people merited greater consideration. We found no indication that such consideration occurred, after mid-1991 when it became clear that Navy downsizing and reorganization would affect the size of the NUWC/Norfolk detachment. Short-term lease options could have been used while evaluating such alternatives as vacated government spaces, military construction, or erection of a building by a private contractor on government land.

GSA officials told us that the Navy could have canceled its plan to lease the new facility at any time prior to the March 10, 1992, award of the lease. In this case, GSA would only have been liable to pay the contractor's cost of the proposal. If the project were terminated after the March 1992 award date, GSA and the contractor would have had to negotiate an amount to be paid to the contractor. On March 10, 1992, GSA awarded a 20-year lease to SEABAT I Limited Partnership for a 278,978-square foot build-to-suit facility. Construction commenced immediately with completion anticipated in 14 months. On February 22, 1993, 10 months after construction of the Suffolk facility began, the Navy's Base Structure Evaluation Committee recommended to the Secretary of Defense that the NUWC/Norfolk detachment be disestablished and transferred to the NUWC/Newport Division, Newport, Rhode Island. At that time, the new building was nearing completion. The Secretary of Defense included this recommendation in his report to BRAC.

On March 23, 1993, while awaiting BRAC's final decision regarding the future of the detachment, a team composed of NUWC/Newport Division and NUWC/Norfolk detachment personnel assessed the practicality and cost of moving the detachment twice over the next 18 months (i.e., first into the new Suffolk facility and then to Newport, Rhode Island). The assessment was necessary since the existing leases were about to expire and time-sensitive decisions regarding the move needed to be made. The assessment was based on the assumption that the detachment had to be disestablished and relocated to Newport by the end of fiscal year 1994.

The team's analysis of whether to move into the Suffolk facility considered two options: (1) keep the detachment in the current facilities or (2) move the detachment to the new Suffolk facility. The study concluded that, from a cost perspective, moving into the new facility was in the best interest of the government, and provided a cost savings between \$3.506 million and \$8.638 million. We did not analyze this assessment in detail; however, we believe that pertinent costs were considered and we found no basis to

question the alternative selected. On May 9, 1993, the construction of the \$27 million facility was completed, and by June 18, 1993, the building was occupied.

On July 1, 1993, the Defense BRAC approved DOD's recommendation to disestablish the Norfolk detachment and relocate its functions, personnel, equipment, and support to the NUWC/Newport Division, Newport, Rhode Island.

GAO's Analysis

Nearly 2 years elapsed between the initial solicitation to acquire a facility for the detachment and the signing of the lease. During this period, significant organizational changes occurred that affected the size and mission of the detachment. We found no evidence that consideration of options for housing a downsized detachment were considered. We believe that the Navy should not have entered into this 20-year build-to-suit lease during a period of military downsizing and organizational instability without reevaluating its continued need. The lease was not a wise management decision since it limited the use of other options, such as vacated government space. We used a present value analysis to determine the net cost to the government in entering into this long-term lease.

We computed the present value as of March 1992, when the lease contract was awarded, at the unoccupied rate for fiscal years 1996 through 2012 (the balance of the 20-year lease). In our calculation, we recognized that benefits were derived for the period the building would be occupied by the detachment through 1995. In that case, the benefits to the government equaled the costs of the rent. Therefore, we netted out the costs for that period and only included the costs starting with 1996. Based on this analysis, we found that by constructing the Suffolk facility, the Navy incurred approximately \$24.3 million, in 1992 dollars, in unnecessary lease costs, as well as over \$9 million in one-time costs related to relocation.

Future of the Suffolk Facility

The U.S. Atlantic Command (USACOM) has expressed an interest in using the Suffolk facility. If it occupies the facility as anticipated, no lease costs will be incurred by NUWC, as long as the facility is fully occupied. According to a February 28, 1994, USACOM letter, USACOM initiated an effort to obtain sufficient space to house its new Joint Training and Simulation Center to support an expanded training mission. In this letter, USACOM stated that a USACOM review team had identified the Suffolk facility as the most complete and least expensive option for USACOM's training center. In

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addition, USACOM requested that the Suffolk facility be assigned to USACOM. The transfer of USACOM personnel, equipment, and furnishings is tentatively scheduled to take place in phases during fiscal year 1995, as NUWC vacates the building, and USACOM will assume liability for the lease cost of the building.

Major Contributors to This Report

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